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# **I. PURPOSE OF AUDIT GUIDELINES**

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## **Background**

The U.S. Agency for International Development (USAID) administers most of the foreign economic development and humanitarian assistance programs of the United States Government. It funds programs designed to promote sustainable development. These programs can generally be grouped into six major categories: promoting broad-based economic growth, advancing democracy, stabilizing population and protecting human health, protecting the environment, building human capacity through education and training, and saving lives and preventing disasters through humanitarian assistance.

USAID consists of a central headquarters staff in the United States and a number of overseas Missions and Offices. It provides assistance to both non-U.S. nongovernmental and non-U.S. governmental organizations through programs managed by its Offices and Missions outside of the United States.

The "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines):

- are for the use of independent auditors in performing recipient-contracted audits required by USAID agreements with *non-U.S. recipient organizations*. These organizations are referred to as "recipients" or "foreign recipients" throughout these Guidelines. "Agreements", or "awards", are defined as USAID-funded grants, contracts, cooperative agreements, and loans.
- provide guidance to the recipients in selecting independent auditors to perform the audits.

USAID agreements with foreign recipients require them to contract independent auditors acceptable to the USAID Office of Inspector General (OIG) to perform financial audits of the funds provided under the agreements. Such audits are in accordance with the Inspector General Act of 1978, as amended. USAID OIG reserves the right to conduct audits using its own staff, notwithstanding acceptable audits performed by other auditors, in cases where special accountability needs are identified.

## **Applicability**

USAID agreements with both foreign governments and non-U.S. nongovernmental recipients require that a recipient-contracted audit be performed annually in accordance with these Guidelines when the recipient expends \$300,000 or more in USAID awards in its fiscal year. The determination of when an award is expended should be based on when the activity related to the award occurs.

Food donation agreements under the PL 480 Title II and Title III programs also require recipient-contracted audits of foreign recipients. In addition, agreements for cash transfers and sector assistance may include recipient-contracted audit requirements. Such audits should be performed in accordance with these Guidelines to the extent that the Guidelines do not conflict with the agreement provisions.

USAID standard audit provisions require that non-U.S. recipients ensure that audits of subrecipients are performed annually, in accordance with these Guidelines, for subrecipients expending \$300,000 or more in USAID awards in their fiscal year.

## **Roles of USAID Missions and the OIG**

USAID Missions monitor and ensure the submission of required recipient-contracted audit reports. The USAID Regional Inspectors General (RIGs) monitor the quality of such audits.

Unless otherwise noted, recipient-contracted audits must be conducted in accordance with Chapters 3, 4, and 5 of *U.S. Government Auditing Standards* ("Yellow Book"; hereafter referred to as *Government Auditing Standards*) issued by the Comptroller General of the United States and generally accepted auditing standards adopted by the American Institute of Certified Public Accountants (AICPA), which have been incorporated into *Government Auditing Standards* by reference. If recipient-contracted auditors desire technical assistance related to these audits, they should contact the appropriate USAID RIG office or the cognizant USAID Mission.

USAID ensures that audit agreements between recipients and independent auditors contain a standard statement of work containing all the requirements of these Guidelines. Accordingly, recipients should send all prospective audit contracts to the cognizant USAID Mission for approval prior to finalization.

One annual audit should cover all USAID funding to a recipient. Recipients having funding agreements with more than one USAID Mission should send their audit contracts for approval to the nearest USAID Mission with which they have an agreement. This USAID Mission will act as the designated cognizant Mission, unless the recipient is otherwise directed by USAID.

The proposed audit contract submitted by the recipient to the cognizant USAID Mission should indicate which USAID agreements will be covered by the audit. The designated cognizant Mission will coordinate the audit efforts with any other USAID Missions that have agreements with the recipient. The USAID Missions will provide the independent auditors with data regarding any USAID direct procurements for use by the recipient and will confirm the amounts disbursed (advances and reimbursements) to the recipient. The cognizant USAID Mission will be responsible for distributing audit reports to the other USAID Missions and resolving a recipient's organization-wide internal control and compliance deficiencies. Each USAID Mission will also be responsible for acting upon findings and recommendations applicable to its agreements with the recipient.

Recipients must submit final audit reports to the cognizant USAID Mission within 30 days of audit completion. The audit should be completed and the report submitted no later than 9 months after the end of the fiscal year in which the expenditures were incurred. Missions will forward final reports to the Regional Inspector General (RIG) for review and release.

The USAID RIG will conduct Quality Control Reviews (QCRs) of the working papers for a selected sample of the audits. These reviews will determine whether audit work was performed in accordance with these Guidelines. The RIG will notify USAID, the recipient and the independent auditors of the results of these reviews.

## **Audit Costs and Sanctions**

Recipients may charge to the USAID agreements all costs for performing the specific audit of their USAID-funded programs. The costs to be charged to the USAID agreements for auditing the recipient's general purpose financial statements will be a matter for negotiation between USAID and the recipient (see Part III.C. of these Guidelines). As no audit costs may be charged to a USAID agreement if audits are not performed in accordance with these Guidelines, it is incumbent upon the auditor to produce a final product which meets this requirement.

USAID will consider appropriate sanctions against a recipient in the event of continued inability or unwillingness to have an audit performed in accordance with these Guidelines. Sanctions could include suspension of disbursements to the recipient until a satisfactory audit is performed. The USAID RIG will refer independent auditors to appropriate regulators, professional authorities, and U.S.-affiliated firms for significant inadequacies or repeated instances of substandard performance. Auditors submitting unacceptable work may be removed from the list of firms approved for performing audits under the recipient-contracted audit program (see Part II.A. of these Guidelines). In addition, audit firms that do not provide timely responses to questions raised by the USAID Mission or the USAID RIG may be removed from the list of approved audit firms.

### **Compliance With Auditing Standards**

USAID is aware that some independent auditors contracted by foreign recipients initially may not fully comply with these Guidelines because of a lack of technical knowledge and experience in using *Government Auditing Standards*. The USAID RIG will assess and consider this lack of institutional capability in accepting or rejecting reports based on QCRs. The USAID RIG may allow exceptions to compliance with *Government Auditing Standards* and these Guidelines provided that: (a) audit reports are determined to be reliable, and (b) any deviations from *Government Auditing Standards*, such as noncompliance with the internal and external quality control review programs and continuing education requirements, are clearly stated in the report as scope limitations (see Parts V.B.1. and VII of these Guidelines).

Independent auditors are responsible for upgrading their audit capabilities. Nevertheless, USAID Missions and the USAID RIG will consider providing technical assistance to independent auditors when requested. The USAID RIG may remove from the list of approved firms any independent auditors that do not make adequate progress in upgrading their audit capabilities to comply with *Government Auditing Standards*.

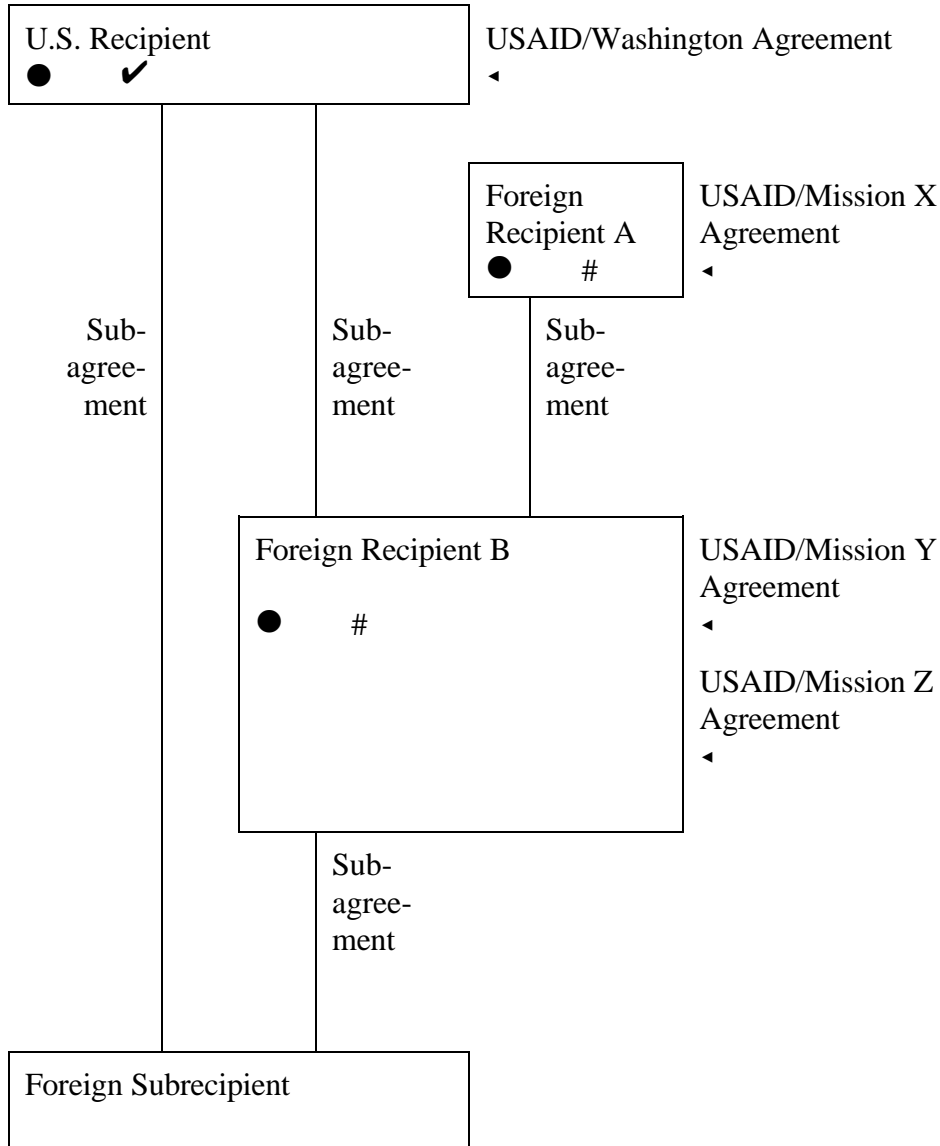
### **Multiple Agreements and Subrecipients**

Some recipients may receive direct assistance funding from USAID under more than one agreement and also indirect assistance from USAID as a subrecipient from either foreign or U.S. recipients. Under such circumstances, a recipient should have one annual recipient-contracted audit performed that would cover all USAID funding to the recipient from all sources. The recipient should contract only one audit firm to perform the annual audit.

A non-U.S. organization that is only a subrecipient of a U.S. recipient organization is covered by the audit requirements of ADS 591.5.4, and is subject to monitoring by the prime U.S. recipient, which must comply with OMB Circular A-133 requirements. When a foreign recipient of direct USAID assistance is also a subrecipient of a U.S. recipient organization, the annual audit performed in accordance with these Guidelines should include the funding passed-through by the U.S. recipient organization. If the foreign recipient also receives assistance from other donors, consideration should be given to including the other donors' assistance in the USAID audit, provided an agreement and cost sharing arrangement can be negotiated with the other donors.

The agreement and subagreement matrix shown on the following page illustrates these principles.

## AGREEMENT AND SUBAGREEMENT MATRIX



### AUDIT REQUIREMENT:

#Foreign Recipient-contracted audit in accordance with these Guidelines (audit monitored and audit report screened by cognizant USAID Mission).

- Audit of Foreign Recipient A should cover USAID/Mission X Agreement.
- Audit of Foreign Recipient B should cover USAID/Mission Y Agreement, USAID/Mission Z Agreement, subagreement from Foreign Recipient A, and subagreement from U.S. Recipient.

- ✓ A-133 audit (monitored by USAID/Washington; audit report subject to review by OIG Office of Financial Audits in Washington).
- Each primary recipient (U.S. Recipient, Foreign Recipient A, and Foreign Recipient B) is responsible for ensuring that its subrecipient audit requirements are met.

## II. SELECTION OF INDEPENDENT AUDITORS

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This part provides guidance to recipients in selecting independent auditors acceptable to USAID. USAID agreements with foreign recipients require that the USAID funds provided under the agreements be audited annually by independent auditors acceptable to the USAID OIG. The USAID RIG shall maintain a list of independent auditors eligible to perform audits of USAID agreements.

Audits of USAID funds provided to:

- nongovernmental recipients (nonprofit organizations) are to be performed by independent audit firms in accordance with *Government Auditing Standards*.
- governmental recipients are to be performed either by audit firms in accordance with *Government Auditing Standards* or by the government's Supreme Audit Institution (SAI) in accordance with *Government Auditing Standards*, auditing standards promulgated by the International Organization of Supreme Audit Institutions (INTOSAI), or auditing guidelines of the International Auditing Practices Committee of the International Federation of Accountants (IFAC).

Recipients must ensure that all records are available to the independent auditors, all accounting entries and adjustments are made, and all other necessary steps are taken to enable the auditors to complete their work. Recipients must present the audit report to USAID within 30 days after completion of the audit work and not later than 9 months after the end of the fiscal year in which the expenditures were incurred. To this end, interim audit work called for during the year being audited may be necessary except in the case of recipients with few transactions.

Audits should begin before the close of a fiscal year, since initiating audits after the close of a fiscal year could hinder timely audit reporting and may unduly restrict the scope of certain audit procedures. USAID OIG recommends that independent audits be contracted well in advance of the fiscal year close so that necessary interim audit work can be performed throughout the year. This practice could also result in reduced audit costs. Part IX of these Guidelines presents an outline of an illustrative statement of work to be included in recipient-contracted audit agreements.

### A. Audit Firms

The cognizant USAID Mission should approve the audit firm prior to execution of the audit services contract. The preferred procedure is for the recipient to obtain proposals and select an audit firm from the list of firms determined to be eligible by the USAID RIG. The recipient should submit the draft contract to the cognizant USAID Mission for approval. The USAID Mission will verify that the firm selected is on the list of firms eligible to perform audits of USAID funds and that the statement of work contained in the contract complies with these Guidelines.



In determining acceptability of proposed audit firms, the USAID RIG will give first preference to those firms which have international partnership agreements with firms located in the United States. It will give second preference to affiliates or representatives of firms located in the United States which are subject to standard firm audit quality control procedures and reviews. Local firms that are not affiliated with firms located in the United States may be accepted when there is a high degree of assurance of professional quality based upon prior experience with an international organization or other acceptable client assurance.

Local firms may be conditionally accepted when they are the regular auditors of a recipient's general purpose financial statements and are recommended by the USAID Mission. The recommendation may be based on prior experience, other acceptable client assurance or on a pre-qualification review by USAID. *Conditionally accepted local firms must be separately approved for each recipient they audit under these Guidelines.*

The USAID RIG may temporarily authorize the use of audit firms that have not yet developed the capability to fully comply with *Government Auditing Standards*, provided that the auditors use other acceptable auditing standards. However, it is expected that such audit firms will make satisfactory efforts to fully comply with *Government Auditing Standards* within a reasonable period of time. All selected audit firms should meet or make satisfactory efforts toward meeting the continuing education requirements (CPE) and internal and external peer review requirements in accordance with *Government Auditing Standards*. RIGs may remove firms which fail to meet this objective from the list of auditors eligible to perform audits of USAID agreements.

It is the responsibility of recipient-contracted audit firms to perform audits pursuant to these Guidelines and to present audit reports in a timely manner. If USAID rejects the work of an audit firm due to noncompliance with these Guidelines, the audit costs may not be charged to the USAID agreements until such time as the OIG finds the report to be acceptable. Should the audit firm fail to make its report acceptable, another audit will be required by a different recipient contracted audit firm or USAID will make arrangements for its own audit. In such case, the audit firm will not be considered acceptable to perform future audits until the USAID RIG determines that it has undergone an external quality control review, implemented the resultant recommendations, and is capable of substantially improved performance.

## **B. Government Supreme Audit Institutions**

The recipient country's principal government audit agency, often referred to as its "Supreme Audit Institution" (SAI), may audit governmental recipients under these Guidelines. However, SAIs will only be accepted to audit USAID funds if the USAID RIG determines that the SAI:

1. is in fact and appearance independent of the government recipient organization to be audited and the executive branch of the government, and substantially meets the independence requirements set forth in the *Government Auditing Standards*;
2. does not participate in any way in pre-control, contract or transaction approval, check signing, or

other activity which is incompatible with the audit function;

3. maintains a professionally prepared and competent staff of duly qualified and licensed certified public accountants, or equivalent, experienced in the performance of financial audits and appropriately supervised by more experienced auditors;
4. complies with *Government Auditing Standards*, auditing standards promulgated by the International Organization of Supreme Audit Institutions (INTOSAI), or auditing guidelines of the International Auditing Practices Committee of the International Federation of Accountants (IFAC); and
5. maintains a continuing program of staff training and professional development for its audit staff.

USAID OIG encourages SAIs to develop their own auditing manuals and audit quality control systems and to participate in an external quality control review program. USAID will consider assisting SAIs where they manifest a desire to perform professional quality audits of USAID-financed activities and the recipient government places a high priority upon this function.

SAIs which do not fully meet the criteria described in 3, 4, and 5 above, may be accepted by the USAID RIG if they agree to use acceptable auditing standards and to have their audit work supervised by a qualified independent audit firm until they are capable of fully complying with the listed criteria.

SAIs that are accepted by USAID must:

- perform audits pursuant to these Guidelines,
- present their audit reports in a timely manner, and
- sign a comprehensive agreement with the USAID Mission and the USAID RIG to perform multiple annual audits of governmental recipients in accordance with these Guidelines. Alternatively, the parties may sign separate agreements for each annual audit.

A model audit agreement is presented in Part X of these Guidelines. This agreement takes the place of a contract that would be signed between an independent audit firm and a recipient. The agreement should include a statement of work which will require the SAI to use specific acceptable auditing standards and to provide the reports required by these Guidelines, including the report on the fund accountability statement for the USAID funds, the report on internal controls related to the USAID-funded programs, and the report on compliance with agreement terms and applicable laws and regulations related to the USAID-funded programs.

In the event that an SAI demonstrates continued inability or unwillingness to perform audit work in compliance with these Guidelines, USAID will not accept its work until the USAID RIG determines that the SAI has undergone an external quality control review, implemented the resultant recommendations, and is capable of substantially improving its performance. If an SAI's audit work is

rejected, USAID may require an independent audit by a professional independent audit firm or, at its discretion, make arrangements for its own audit on behalf of the governmental recipient in accordance with the standard audit provisions in the USAID agreements.

USAID considers accountability over foreign government-owned local currencies generated by or resulting from USAID programs to be the primary responsibility of the government which owns such funds. This is true notwithstanding any agreed-upon conditions for separate deposit, usage, etc. Therefore, USAID expects the SAI of the country to determine, based upon professionally executed audits, whether government-owned local currencies have been deposited, disbursed, recorded, and accounted for in accordance with the agreed upon conditions, and to report this to the cognizant USAID Mission. USAID Missions are responsible for ensuring the frequency of audits of government-owned local currencies. The USAID RIG may periodically review the quality of such audits.

### III. AUDIT OBJECTIVES

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The financial audit shall include: (1) a specific audit of all the recipient's USAID-funded programs; and (2) an audit of the recipient's general purpose financial statements on an organization-wide basis (balance sheet, income statement, and cash flow statement) for all nonprofit organizations and government revenue-producing agencies. The fund accountability statement is the basic financial statement to be audited that presents the recipient's revenues, costs incurred, cash balance of funds provided to the recipient by USAID, and commodities and technical assistance directly procured by USAID for the recipient's use. The fund accountability statement should be reconciled to the USAID funds included in the general purpose financial statements by a note to the financial statements or the fund accountability statement. Part VI of these Guidelines illustrates a typical fund accountability statement.

#### A. Audit of USAID Funds

A financial audit of the funds provided by USAID shall be performed in accordance with *Government Auditing Standards*, or other approved standards where applicable (see section II.B.4 of these Guidelines), and accordingly include such tests of the accounting records as deemed necessary under the circumstances. The specific objectives of the audit of the USAID funds are to:

- express an opinion on whether the fund accountability statement for the USAID-funded programs presents fairly, in all material respects, revenues received, costs incurred, and commodities and technical assistance directly procured by USAID for the period audited in conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- evaluate and obtain a sufficient understanding of the recipient's internal control structure related to the USAID-funded programs, assess control risk, and identify reportable conditions, including material internal control structure weaknesses. This evaluation should include the internal controls related to required cost sharing contributions.
- perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost sharing) and applicable laws and regulations related to USAID-funded programs. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred should be identified. Such tests should include the compliance requirements related to required cost sharing contributions.
- perform an audit of the indirect cost rate(s) if the recipient has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with the recipient.

- determine if the recipient has taken adequate corrective action on prior audit report recommendations.

Auditors should design audit steps and procedures in accordance with *Government Auditing Standards*, Chapter 4, to provide reasonable assurance of detecting situations or transactions in which irregularities or illegal acts have occurred or are likely to have occurred. If such evidence exists, the auditors should contact the appropriate USAID RIG office and should exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations or legal proceedings.

## **B. Review of Cost Sharing**

The audit should determine whether cost sharing contributions were provided and accounted for by the recipient in accordance with the terms of the agreements.

## **C. Audit of General Purpose Financial Statements**

A financial audit of the recipient's general purpose financial statements on an organization-wide basis shall be submitted to USAID together with the audit of USAID funds. The audit must be performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA), auditing standards that have been prescribed by the laws of the country or adopted by an association of public accountants in the country, or auditing standards promulgated by the International Organization of Supreme Audit Institutions or International Auditing Practices Committee of the International Federation of Accountants. The objective of this audit is to express an opinion on whether those statements present fairly, in all material respects, the recipient's financial position at year end, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles. This requirement only applies to nongovernmental recipients (nonprofit organizations) and revenue-producing public agencies of governmental recipient organizations.

## **IV. AUDIT SCOPE**

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The auditors should use the following steps as the basis for preparing their audit programs and their review. They are not considered all-inclusive or restrictive in nature and do not relieve the auditor from exercising due professional care and judgment. The steps should be modified to fit local conditions and specific program design, implementation procedures, and agreement provisions which may vary from program to program. Any limitations in the scope of work must be communicated as soon as possible to the appropriate USAID RIG office.

### **A. Pre-Audit Steps**

Following is a list of documents applicable to different USAID programs. The auditors should review the applicable documents considered necessary to perform the audit:

1. The agreements between USAID and the recipient.
2. The subagreements between the recipient and other implementing entities, as applicable.
3. Contracts and subcontracts with third parties, if any.
4. The budgets, implementation letters, and written procedures approved by USAID.
5. OMB Circular A-122 "Cost Principles for Nonprofit Organizations".
6. OMB Circular A-21 "Cost Principles for Educational Institutions".
7. Federal Acquisition Regulation (FAR), Part 31 -- Contract Cost Principles and Procedures.
8. USAID Acquisition Regulation (AIDAR), which supplements the FAR.
9. Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees (USAID Automated Directives System, Series 300).
10. Standard Provisions Annex for Agreements with Foreign Governments (USAID Automated Directives System, Series 200).
11. Standard Audit Provisions for PL 480 Title II and III Agreements (USAID Automated Directives System, Supplemental Listing).
12. All program financial and progress reports; charts of accounts; organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures for materials, as necessary, to successfully complete the required work.

## B. Fund Accountability Statement

The auditors should examine the fund accountability statement<sup>1</sup> for USAID programs including the budgeted amounts by category and major items; the revenues received from USAID for the period covered by the audit; the costs reported by the recipient as incurred during that period; and the commodities and technical assistance directly procured by USAID for the recipient's use. The fund accountability statement should include all USAID assistance funds identified by each specific program or agreement. The revenues received from USAID less the costs incurred, after considering any reconciling items, should reconcile with the balance of cash-on-hand or in bank accounts. The fund accountability statement should not include cost sharing contributions provided from the recipient's own funds or in-kind. However, a separate cost sharing schedule should be included and examined to determine whether cost sharing contributions were provided and accounted for in accordance with terms of the agreements (see Part IV.C. of these Guidelines).

The auditors may prepare or assist the recipient in preparing the fund accountability statement from the books and records maintained by the recipient, but the recipient must accept responsibility for the statement's accuracy before the audit commences.

The opinion on the fund accountability statement should comply with SAS No. 62 (AU623). The fund accountability statement should separately identify those revenues and costs applicable to each specific USAID agreement. The audit should evaluate program implementation actions and accomplishments to determine whether specific costs incurred are allowable, allocable, and reasonable under the agreement terms, and to identify areas where irregularities and illegal acts have occurred or are likely to have occurred as a result of inadequate controls. At a minimum, the auditors should:

1. review direct and indirect costs billed to and reimbursed by USAID and costs incurred but pending reimbursement by USAID, identifying and quantifying any questioned costs. All costs that are not supported with adequate documentation or are not in accordance with the agreement terms should be reported as questioned. Questioned costs that are pending reimbursement by USAID should be identified in the notes to the fund accountability statement as not reimbursed by USAID.

Questioned costs should be presented in the fund accountability statement in two separate categories: (a) ineligible costs that are explicitly questioned because they are unreasonable; prohibited by the agreements or applicable laws and regulations; or not program related; and (b) unsupported costs that are not supported with adequate documentation or did not have required prior approvals or authorizations. All questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations should be included as findings in the

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<sup>1</sup>/A "fund accountability statement" is a financial statement that presents a USAID recipient's revenues, costs incurred, cash balance of fund (after considering reconciling items), and commodities and technical assistance directly procured by USAID that were provided by USAID.

report on compliance. Also, the notes to the fund accountability statement should briefly describe the questioned costs and should be cross-referenced to the corresponding findings in the report on compliance.

2. review general and program ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to, and reimbursed by, USAID to the program and general ledgers.
3. review the procedures used to control the funds, including their channeling to contracted financial institutions or other implementing entities. Review the bank accounts and the controls on those bank accounts. Perform positive confirmation of balances, as necessary.
4. determine whether advances of funds were justified with documentation, including reconciliations of funds advanced, disbursed, and available. The auditors should ensure that all funding received by the recipient from USAID was appropriately recorded in the recipient's accounting records and that those records were periodically reconciled with information provided by USAID.
5. determine whether program income and reimbursements, if any, representing recoveries of direct and indirect costs, were recorded as income or as credits to program cost accounts. If any revenue was earned by the recipient from program funding, the amounts should be questioned in the fund accountability statement if not credited as reductions to the program's costs or used to further the program's objectives.
6. review procurement procedures to determine whether sound commercial practices including competition were used, reasonable prices were obtained, and adequate controls were in place over the qualities and quantities received.
7. review direct salary charges to determine whether salary rates were reasonable for that position, in accordance with those approved by USAID when USAID approval is required, and supported by appropriate payroll records. Determine if overtime was charged to the program and whether it was allowable under the terms of the agreements. Determine whether allowances and fringe benefits received by employees were in accordance with the agreements and applicable laws and regulations. Unallowable salary charges should be questioned in the fund accountability statement.
8. review travel and transportation charges to determine whether they were adequately supported and approved. Travel charges which are not supported with adequate documentation or not in accordance with agreements and regulations should be questioned in the fund accountability statement.
9. review commodities (e.g., supplies, materials, vehicles, equipment, food products, etc.) procured by the recipient as well as those directly procured by USAID for the recipient's use. Determine whether: (a) commodities were accounted for; (b) control procedures exist and have been placed in operation to adequately safeguard the commodities; and (c) commodities were used for their intended purposes in accordance with the agreements. As part of the procedures to determine if



commodities were used for intended purposes, the auditors should perform end-use reviews for an appropriate sample of all commodities based on the control risk assessment (see section IV.D. of these Guidelines). End-use reviews may include program site visits to verify that commodities exist or were used for intended purposes and in accordance with the terms of the agreements. The cost of all commodities unaccounted for or not used in accordance with the agreements should be questioned in the fund accountability statement.

10. review technical assistance and services procured by the recipient as well as those procured directly by USAID for the recipient. The auditors should determine whether technical assistance and services were: (a) adequately supported by the recipient as required by the terms of the agreements; and (b) properly accounted for. The cost of all technical assistance and services unaccounted for or not used in accordance with the agreements should be questioned in the fund accountability statement.

In addition to the above audit procedures, if technical assistance and services were contracted by the recipient from a non-U.S. contractor, the auditors should perform additional audit steps of the technical assistance and services, unless the recipient has separately contracted for an audit of these costs. When testing for compliance with agreement terms and applicable laws and regulations, the auditors should not only consider agreements between the recipient and USAID, but also agreements between the recipient and the non-U.S. contractors of the technical assistance and services. The agreements between the recipient and non-U.S. contractors should be audited using the same audit steps described in the other paragraphs of this section, including all tests necessary to specifically determine that costs incurred are allowable, allocable, reasonable, and supported under agreement terms.

If the technical assistance and services were not contracted by the recipient from a non-U.S. contractor, the auditors are still responsible for performing the audit steps listed in 10 (a), (b), and (c) above. However, the auditors are not responsible for performing additional audit steps for the costs incurred under the technical assistance and services agreements since either USAID or a cognizant U.S. Government agency is responsible for contracting for audits of these costs.

11. review the allocation method to determine that the indirect cost pool and distribution base include only allowable items in accordance with agreement terms and regulations when indirect costs were charged to USAID using provisional rates. Indirect cost rates must be calculated after all adjustments have been made to the pool and base.
12. review unliquidated advances to the recipient and pending reimbursements by USAID when performing final close-out audits. Ensure that the recipient returned any excess cash to USAID. Also, ensure that all assets (inventories, fixed assets, commodities, etc.) procured with program funds were disposed of in accordance with the terms of the agreements. The auditors should present, as an annex to the fund accountability statement, the balances and details of final inventories of nonexpendable property acquired under the agreements. This inventory should indicate which items were titled to the U.S. Government and which were titled to other entities.

The fund accountability statement included in Part VI, Example 1 of these Guidelines illustrates how to report the results of a single audit that covers more than one USAID agreement. In such cases, the fund accountability statement should separately disclose the financial information (revenues, costs, etc.) for each agreement, and should identify the USAID Missions that provided funding for each agreement. This is particularly important in audits of recipients covering agreements from more than one USAID Mission. Each mission can identify its agreements in the audit report for resolution of findings and recommendations with the recipient. The same reporting principles apply when only one USAID agreement is covered by the audit.

The auditors should generally express a single opinion on a fund accountability statement that includes more than one agreement with USAID. Auditors should not express separate opinions on fund accountability statements of each agreement or program unless specifically requested to do so by the USAID Mission.

### **C. Cost Sharing Schedule**

The auditors should review the cost sharing schedule and determine whether cost sharing contributions were provided and accounted for by the recipient in accordance with the terms of the agreements.

Reportable and material internal control weaknesses related to cost sharing contributions should be set forth as findings in the report on the internal control structure. Any required cost sharing contributions that were not provided by the recipient in accordance with the terms of the agreements should be questioned in the cost sharing schedule as payable by the recipient. Any required cost sharing contributions that were not accounted for in the recipient's journals and general ledger in accordance with the terms of the agreements should be classified as unsupported. All questioned costs should be included as findings in the report on compliance. Also, all questioned costs should be briefly described in the notes to the cost sharing schedule and should be cross-referenced to the corresponding findings in the report on compliance.

The auditors may prepare or assist the recipient in preparing the cost sharing schedule from the books and records maintained by the recipient. The recipient must, however, accept responsibility for the schedule's accuracy before the audit commences. An illustrative cost sharing schedule is included in Part VI of these Guidelines.

### **D. Internal Control Structure**

The auditors should review and evaluate the recipient's internal control structure related to USAID programs to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation. The U.S. General Accounting Office's *Standards for Internal Controls In the Federal Government* (1983) may prove helpful in assessing recipient internal controls. The internal control structure should be documented in the working papers.

Auditors should then prepare the report required by these Guidelines, identifying the reportable

conditions which are significant deficiencies in the design or operation of the internal control structure, and the reportable conditions considered to be material weaknesses. Material weaknesses are reportable conditions in which the design or operation of the specific internal control structure elements do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement may occur and not be detected in a timely manner by management performing its normal functions. Reportable conditions, including material weaknesses, should be set forth in the report as "findings" (See Part V, Section D of these Guidelines). Nonreportable conditions should be included in a separate management letter to the recipient and referred to in the report on the internal control structure.

The major internal controls to be studied and evaluated include, but are not limited to, each revenue and expense account on the fund accountability statement. The auditors should:

1. obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of tests to be performed.
2. assess inherent risk and control risk, and determine the combined risk. Inherent risk is the susceptibility of an assertion, such as an account balance, to a material misstatement assuming there are no related internal control structure policies or procedures. Control risk is the risk that a material misstatement that could occur in an assertion will not be prevented or detected in a timely manner by the entity's internal control structure policies or procedures. Combined risk (sometimes referred to as detection risk) is the risk that the auditor will not detect a material misstatement that exists in an assertion. Combined risk is based upon the effectiveness of an auditing procedure and its application by the auditor.
3. summarize the risk assessments for each assertion in a working paper. The risk assessments should consider the following broad categories under which each assertion should be classified: (a) existence or occurrence; (b) completeness; (c) rights and obligations; (d) valuation or allocation; and (e) presentation and disclosure. At a minimum, the working papers should identify the name of the account or assertion, the account balance or the amount represented by the assertion, the assessed level of inherent risk (high, moderate, or low), the assessed level of control risk (high, moderate, or low), the combined risk (high, moderate, or low), and a description of the nature, timing and extent of the tests performed based on the combined risk. These summary working papers should be cross-indexed to the supporting working papers that contain the detailed analysis of the field work. If control risk is evaluated at less than the maximum level (high), then the basis for the auditor's conclusion must be documented in the working papers.
4. evaluate the control environment, the adequacy of the accounting systems, and control procedures. Emphasize the policies and procedures that pertain to the recipient's ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the fund accountability statement. This should include, but not be limited to, the control systems for:
  - a. ensuring that charges to the program are proper and supported;

- b. managing cash on hand and in bank accounts;
  - c. procuring goods and services;
  - d. managing inventory and receiving functions;
  - e. managing personnel functions such as timekeeping, salaries and benefits;
  - f. managing and disposing of commodities (such as vehicles, equipment, and tools as well as other commodities) purchased either by the program or directly by USAID; and
  - g. ensuring compliance with agreement terms and applicable laws and regulations that collectively have a material impact on the fund accountability statement. The results of this evaluation should be contained in the working paper section described in Section IV E. of these Guidelines dealing with the review of compliance with agreement terms and applicable laws and regulations and presented in the compliance report.
5. evaluate the internal controls established to ensure compliance with cost sharing requirements, including both provision and management of the contributions.
  6. include in the study and evaluation other policies and procedures that may be relevant if they pertain to data the auditors use in applying auditing procedures. This may include, for example, policies and procedures that pertain to nonfinancial data that the auditors use in analytical procedures.

In fulfilling the audit requirement relating to an understanding of the internal control structure and assessing the level of control risk, the auditor should follow, at a minimum, the guidance contained in AICPA SAS Nos. 55, 60, and 78 (AU319A, AU325, and AU319), respectively entitled "Consideration of the Internal Control Structure in a Financial Statement Audit," "Communication of Internal Control Structure Related Matters Noted in an Audit," and "Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS 55," as well as SAS No. 74 (AU801) entitled "Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance."

## **E. Compliance with Agreement Terms and Applicable Laws and Regulations**

In fulfilling the audit requirement to determine compliance with agreement terms and applicable laws and regulations related to USAID programs, the auditors should, at a minimum, follow guidance contained in AICPA SAS No. 74 (AU801) entitled "Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance." The compliance review should also determine if cost sharing contributions were provided and accounted for in accordance with the terms of the agreements. The auditor's report on compliance should set forth as findings all material instances of noncompliance. Nonmaterial instances of noncompliance should be included in a separate management letter to the recipient and referred to in the report on compliance.

The auditor's report should include all conclusions that an irregularity or illegal act either has occurred or is likely to have occurred. In reporting material irregularities, illegal acts, or other noncompliance, the auditors should place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and be quantified in terms of U.S. dollar value, if appropriate. In presenting material irregularities, illegal acts, or other noncompliance, auditors should follow the reporting standards contained in Chapter 5 of *Government Auditing Standards*. Auditors may provide less extensive disclosure of irregularities and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of *Government Auditing Standards* discusses factors that may influence auditors' materiality judgments. If the auditors conclude that sufficient evidence of irregularities or illegal acts exists, they should contact the USAID RIG office and should exercise due professional care in pursuing indications of possible irregularities and illegal acts to avoid interfering with potential future investigations or legal proceedings.

In planning and conducting the tests of compliance the auditors should:

1. identify the agreement terms and pertinent laws and regulations and determine which of those, if not observed, could have a direct and material effect on the fund accountability statement. The auditors should:
  - a. list all standard and program-specific provisions contained in the agreements that cumulatively, if not observed, could have a direct and material effect on the fund accountability statement;
  - b. assess the inherent and control risk that material noncompliance could occur for each of the compliance requirements listed in 1.a. above;
  - c. determine the nature, timing and extent of audit steps and procedures to test for errors, irregularities, and illegal acts that provide reasonable assurance of detecting both intentional and unintentional instances of noncompliance with agreement terms and applicable laws and regulations that could have a material effect on the fund accountability statement. This should be based on the risk assessment described at 1.b., above; and
  - d. prepare a summary working paper that identifies each of the specific compliance requirements included in the review, the results of the inherent, control and combined (detection) risk assessments for each compliance requirement, the audit steps used to test for compliance with each of the requirements based on the risk assessment, and the results of the compliance testing for each requirement. The summary working paper should be cross-indexed to detailed working papers that support the facts and conclusions contained in the summary working paper.
2. determine if payments have been made in accordance with agreement terms and applicable laws and regulations.

3. determine if funds have been expended for purposes not authorized or not in accordance with applicable agreement terms. If so, the auditors should question these costs in the fund accountability statement.
4. identify any costs not considered appropriate, classifying and explaining why these costs are questioned.
5. determine whether any commodities directly procured by USAID are unaccounted for or have not been used for their intended purposes in accordance with the agreements. If so, the cost of such commodities should be questioned.
6. determine whether any technical assistance directly procured by USAID is unaccounted for or has not been used for its intended purpose in accordance with the agreements. If so, the cost of such technical assistance should be questioned.
7. determine if the amount of cost sharing funds was calculated and accounted for as required by the agreements or applicable cost principles.
8. determine if the cost sharing funds and technical assistance, as applicable, were provided according to the terms of the agreements . Quantify any deficiencies.
9. determine whether those who received services and benefits were eligible to receive them.
10. determine whether the recipient's financial reports (including those on the status of cost sharing contributions) and claims for advances and reimbursement contain information that is supported by the books and records.

## **F. Follow-Up on Prior Audit Recommendations**

The auditors should review the status of actions taken on findings and recommendations reported in prior audits of USAID-funded programs. Chapter 4 of *Government Auditing Standards*, under the section entitled *Audit Follow-up*, states: "Auditors should follow up on known material findings and recommendations from previous audits that could affect the financial statement audit. They should do this to determine whether the auditee has taken timely and appropriate corrective actions. Auditors should report the status of uncorrected material finding and recommendations from prior audits that affect the financial statement audit."

## **G. General Purpose Financial Statements**

Auditors should examine the recipient's general purpose financial statements on an organization-wide basis. The audit must be performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA), auditing standards that have been prescribed by the laws of the country or adopted by an association of public accountants in the country, or auditing standards promulgated by the International Organization of Supreme Audit Institutions or

International Auditing Practices Committee of the International Federation of Accountants.

The objective of this audit is to express an opinion on whether those statements present fairly, in all material respects, the recipient's financial position at year end, and the results of its operations and cash flow for the year then ended, in conformity with generally accepted accounting principles.

This requirement only applies to nongovernmental recipients (nonprofit organizations) and revenue-producing public agencies of governmental recipient organizations.

## **H. Indirect Cost Rates**

Auditors should determine the actual indirect cost rates for the year if provisional rates have been used by the recipient to charge indirect costs to USAID. The audit of the indirect cost rates should include tests to determine whether:

1. the distribution or allocation base includes only items or costs authorized by the USAID agreements and applicable cost principles.
2. the indirect cost pool includes only costs authorized by the USAID agreements and applicable cost principles.
3. the indirect cost rates obtained by dividing the indirect cost pool by the base are accurately calculated.
4. the costs included in this calculation reconcile with the total expenses shown in the recipient's audited general purpose financial statements.

The results of the audit of the indirect cost rate should be presented in a schedule of computation of indirect cost rate (see Part VI of these Guidelines). This schedule should contain: (1) a listing of costs included in each indirect cost pool, (2) the distribution base, and (3) the resultant indirect cost rate calculation. The costs in the schedule should reconcile with the total expenses shown in the recipient's general purpose financial statements. U.S. Office of Management and Budget (OMB) Circular A-122 provides additional guidance on allocation of indirect costs and determination of indirect cost rates.

## **I. Other Audit Responsibilities**

The auditors should perform the following steps:

1. Hold entrance and exit conferences with the recipient. The cognizant USAID Mission should be notified of these conferences in order that USAID representatives may attend, if deemed necessary.
2. Institute quality control procedures to ensure that sufficient competent evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. While auditors may use their standard procedures for ensuring quality control, those procedures must, at a minimum, ensure that:
  - audit reports and supporting working papers are reviewed by an auditor, preferably at the partner level, who was not involved in the audit;
  - all quantities and monetary amounts involving calculations are footed and cross-footed; and



- all factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting working papers.
3. Ascertain whether the recipient ensured that audits of its subrecipients were performed to ensure accountability for USAID funds passed-through to subrecipients (see Part I of these Guidelines). If subrecipient audit requirements were not met, the auditors should disclose this in the fund accountability statement and consider qualifying their opinion.
  4. Obtain a management representation letter in accordance with AICPA SAS No. 85 (AU333) signed by the recipient's management.

## **J. Reference Materials**

*Government Auditing Standards*, 1994 Revision, may be obtained from the USAID RIG office or the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. The order desk telephone number is (202) 783-3238. The publications below may be obtained from the cognizant USAID Mission.

### USAID Automated Directives System

- Series 300 concerning Grants, Procurement Regulations and Mandatory Standard Provisions for Non-U.S., Nongovernmental Grantees
- Series 500 concerning Financial Audits of USAID Contractors, Grantees and Host Government Recipients
- Supplementary Listings concerning Food for Peace, Title II, and Standard Audit Provisions for PL 480 Title II and Title III Agreements

### Code of Federal Regulations

- Title 48 - Federal Acquisition Regulations System
  - Chapter 1 - Federal Acquisition Regulations
  - Chapter 7 - Agency for International Development Acquisition Regulations

### Office of Management and Budget (OMB) Circulars

- Circular No. A-21 Cost Principles for Educational Institutions
- Circular No. A-50 Audit Followup
- Circular No. A-122 Cost Principles for NonProfit Organizations

Orders for OMB circulars in hard copy may be placed by calling the OMB in Washington, D.C. at (202) 395-7332. Fax requests may be placed by calling (202) 395-9065. The OMB Internet address is [www.whitehouse.gov/WH/EOP/omb#docs](http://www.whitehouse.gov/WH/EOP/omb#docs).

The following sections of the AICPA Codification of Statements on Auditing Standards (SASs) may be applicable to audits of USAID funds. The AICPA Codification of SASs may be obtained from the American Institute of Certified Public Accountants (AICPA), 1211 Avenue of the Americas, New York, New York 10036-8775. Order department (201) 938-3333. The audit objectives will dictate which SASs apply.

<u>SAS NO.</u>	<u>AU SECTION</u>
8	Other Information in Documents Containing Audited Financial Statements .....550
12	Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments .....337
22	Planning and Supervision.....311
26	Association with Financial Statements .....504
29	Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents .....551
31	Evidential Matter .....326
32	Adequacy of Disclosure in Financial Statements.....431
39	Audit Sampling .....350
41	Working Papers .....339
42	Reporting on Condensed Financial Statements and Selected Financial Data .....552
47	Audit Risk and Materiality in Conducting an Audit.....312
50	Reports on the Application of Accounting Principles .....625
51	Reporting on Financial Statements Prepared for Use in Other Countries.....534
54	Illegal Acts by Clients .....317

55	Consideration of the Internal Control Structure in a Financial Statement Audit (amended by SAS No. 78) .....	319A
56	Analytical Procedures .....	329
57	Auditing Accounting Estimates .....	342
58	Reports on Audited Financial Statements (amended by SAS No. 79) .....	508
60	Communication of Internal Control Structure Related Matters Noted in an Audit .....	325
62	Special Reports .....	623
65	The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements .....	322
70	Reports on the Processing of Transactions by Service Organizations .....	324
71	Interim Financial Information .....	722
73	Using the Work of a Specialist .....	336
74	Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance .....	801
75	Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statements .....	622
77	Amendments to SAS No. 22, <i>Planning and Supervision</i> , No. 59, <i>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</i> , and No. 62, <i>Special Reports</i> .....	various
78	Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55 .....	319
79	Amendment to SAS No. 58, <i>Reports on Audited Financial Statements</i> .....	various
82	The Auditor's Responsibility to Detect and Report Errors and Irregularities .....	316
85	Client Representations .....	333

## V. AUDIT REPORTS

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The recipient should submit to the cognizant USAID Mission six copies of the audit report in English and one copy of the report in the recipient country's official language, if considered appropriate. The USAID Mission will forward the report to the appropriate Regional Inspector General Office for processing. The report shall contain:

- A. a title page, table of contents and a transmittal letter and a summary which includes: (1) a background section with a general description of the USAID programs audited, the period covered, the program objectives, and a clear identification of all entities mentioned in the report and whether the recipient has a USAID-authorized provisional indirect cost rate; (2) the objectives and scope of the financial audit and a clear explanation of the procedures performed and the scope limitations, if any; (3) a brief summary of the audit results on the fund accountability statement, questionable costs, internal control structure, compliance with agreement terms and applicable laws and regulations, indirect cost rates, status of prior audit recommendations, and, if applicable, the recipient's general purpose financial statements on an organization-wide basis; (4) a brief summary of the results of the review of cost sharing contributions; and (5) a brief summary of the recipient's management comments regarding its views on the audit and review results and findings.
- B. the auditor's report on the fund accountability statement, identifying any questioned costs not fully supported with adequate records or not eligible under the terms of the agreements. The report should be in conformance with the standards for reporting in Chapter 5 of the *Government Auditing Standards* and should include:
  - 1. the auditor's opinion on whether the fund accountability statement presents fairly, in all material respects, program revenues, costs incurred, and commodities/technical assistance directly procured by USAID for the year then ended in accordance with the terms of the agreements and in conformity with generally accepted accounting principles or other basis of accounting. This opinion must clearly state that the audit was performed in accordance with *Government Auditing Standards* or specific alternative standards if applicable (see section II.B of these Guidelines). Any deviations from these standards, such as noncompliance with the requirements for continuing professional education and external quality control reviews, must be disclosed. (see Part VII, Example 1 of these Guidelines).
  - 2. the fund accountability statement identifying the program revenues, costs incurred, and commodities/technical assistance directly procured by USAID for the fiscal year. The statement must also identify questioned costs not considered eligible for reimbursement and unsupported, if any, including the cost of any commodities and technical assistance directly procured by USAID that are unaccounted for or not used in accordance with agreement terms.

All questioned costs should be included as findings in the report on compliance. Also, all questioned costs should be briefly described in the notes to the fund accountability statement

and should be cross-referenced to the corresponding findings in the report on compliance (see Part VI, Example 1 of these Guidelines). All questioned costs in the notes to the fund accountability statement should be stated in U.S. dollar equivalents. The U.S. dollar equivalent should be calculated at the exchange rate applicable at the time the local currency was disbursed to the recipient by USAID.

3. notes to the fund accountability statement, including a summary of the significant accounting policies, explanation of the most important items of the statements, the exchange rates during the audit period and foreign currency restrictions, if any.
- C. a report on the auditor's review of the schedule of cost sharing contributions identifying any questioned costs for amounts not provided or accounted for in accordance with the terms of the agreements. The report should follow the guidance in the AICPA Statements on Standards for Attestation Engagements, Attestation Standard (AT) for review reports AT100.56. The report shall include:
1. a review report on the cost sharing schedule. This review report should state that the review was conducted in accordance with AICPA standards. It should also explain that a review is more limited in scope than an examination performed in accordance with AICPA standards, and state that an opinion on the schedule is not expressed. The report should identify any questioned costs related to the provision of, and accounting for, cost sharing funds, with a reference to the corresponding finding in the report on compliance. The report should provide negative assurance with regard to the provision of, and accounting for, cost sharing contributions for items not tested (see Part VII, Example 6 of these Guidelines).
  2. the cost sharing schedule identifying the budgeted amounts required by the agreements, the amounts actually provided, and any amounts which are questioned because they were not provided or accounted for in accordance with the terms of the agreements (see Part VI, Example 2 of these Guidelines).
    - a. In reporting the budgeted amounts, the auditors should use the budgeted amounts from the agreements, if an annualized budget is provided. The auditors may also use the matching percentage for cost sharing contributions provided in the agreements, if available, to report the budgeted amount for the period. In this case, the auditors should compute the budgeted amount by multiplying the matching percentage by the U.S. dollar amount provided by USAID. If neither of the above-mentioned amounts are available, the auditors may prorate the overall budgeted amount to compute the amount which applies to the current audit period based on the most appropriate criteria available.
    - b. Cost sharing contributions not provided in accordance with the agreement terms should be questioned as payable by the recipient. Cost sharing contributions not accounted for in accordance with the agreement terms should be classified as unsupported.
  3. notes to the cost sharing schedule which briefly explain the basis for the questioned costs. The

notes should be cross-referenced to the corresponding findings in the report on compliance.

- D. the auditor's report on the understanding of the recipient's internal control structure related to USAID-funded program. The auditor's report should include as a minimum: (1) the scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing the control risk, and; (2) the reportable conditions, including the identification of material weaknesses in the recipient's internal control structure. This report should be made in conformance with SAS No. 60 and the standards for reporting in Chapter 5 of *Government Auditing Standards*. Nonreportable conditions should be communicated to the recipient in a separate management letter which should be referred to in the report on the internal control structure and sent with the audit report (see Part VII of these Guidelines).
- E. the auditor's report on the recipient's compliance with agreement terms and applicable laws and regulations related to USAID-funded programs. The report should follow the guidance in SAS No. 74. Material instances of noncompliance should be reported and discussed in the related findings. Nonmaterial instances of noncompliance should be communicated to the recipient in a separate management letter which should be sent with the audit report (see Part VII of these Guidelines).

The auditor's report shall include all conclusions, based on evidence obtained, that an irregularity or illegal act either has occurred or is likely to have occurred. This report shall include an identification of all questioned costs, if any, as a result of irregularities or illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected and whether the recipient does or does not agree with the findings and questioned costs.

In reporting material irregularities, illegal acts, or other noncompliance, the auditors should place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and be quantified in terms of U.S dollar value, if appropriate. In presenting material irregularities, illegal acts, or other noncompliance, auditors should follow the reporting standards contained in Chapter 5 of *Government Auditing Standards*. Auditors may provide less extensive disclosure of irregularities and illegal acts that are not material in either a quantitative or qualitative sense. Chapter 4 of *Government Auditing Standards* provides guidance concerning factors that may influence auditors' materiality judgments. If the auditors conclude that sufficient evidence of irregularities or illegal acts exist, they must contact the USAID RIG office and exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations or legal proceedings.

- F. the schedule of computation of indirect cost rate (See Part VI, Example 3) and the auditor's report on the schedule of computation of indirect cost rate. This should be a separate report prepared in accordance with guidance set forth in SAS 29 (AU551). (See Part VII, Example 4).
- G. the auditor's comments on the status of prior audit recommendations. The auditors should review and report on the status of actions taken on findings and recommendations reported in prior

audits. When corrective action has not been taken and the deficiency remains unresolved for the current audit period and is reported again in the current report, the auditors need only briefly describe the prior finding and status and show the page reference where it is included in the current report. If there were no prior findings and recommendations, a note to that effect should be included in this section of the audit report.

- H. the recipient's general purpose financial statements on an organization-wide basis and the auditor's report thereon. These statements and report thereon only apply to nongovernmental recipient organizations and revenue-producing public agencies of governmental recipient organizations.

The findings contained in the reports on internal controls and compliance related to USAID-funded programs should include a description of the condition (what is) and criteria (what should be). The cause (why it happened) and effect (what harm was caused by not complying with the criteria) should be included in the findings if they can be easily determined. In addition, the findings should contain a recommendation that corrects the cause and the condition, as applicable. It is recognized that material internal control weaknesses and noncompliance found by the auditors may not always have all of these elements fully developed, given the scope and objectives of the specific audit. The auditors should, however, at least identify the condition, criteria and possible effect to enable management to determine the effect and cause. This will help management take timely and proper corrective action.

Findings which involve monetary effect should

- be quantified and included as questioned costs in the fund accountability statement and cost sharing schedule (cross-referenced),
- be reported without regard to whether the conditions giving rise to them were corrected,
- be reported whether the recipient does or does not agree with the findings or questioned costs, and
- contain enough relevant information to expedite the audit resolution process (i.e., number of items tested, size of the universe, error rate, corresponding U.S. dollar amounts, etc.).

The reports should also contain, after each recommendation, pertinent views of responsible recipient officials concerning the auditor's findings and actions taken by the recipient to implement the recommendations. If possible, the auditor should obtain written comments. When the auditors disagree with management comments opposing the findings, conclusions or recommendations, they should explain their reasons following the comments. Conversely, the auditors should modify their report if they find the comments valid.

Any evidence of irregularities or illegal acts that have occurred or are likely to have occurred must be included in a separate written report if deemed necessary by the USAID RIG office. This report

should include an identification of all questioned costs as a result of irregularities or illegal acts, without regard to whether the conditions giving rise to the questioned costs have been corrected or whether the recipient does or does not agree with the findings and questioned costs.

## **VI. ILLUSTRATIVE FUND ACCOUNTABILITY STATEMENT, COST SHARING SCHEDULE AND COMPUTATION OF INDIRECT COST RATE**

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### **EXAMPLE 1**

#### **Illustrative Fund Accountability Statement**

#### **(NAME OF RECIPIENT) FUND ACCOUNTABILITY STATEMENT<sup>2/</sup>**

**January 1, 19XX to December 31, 19XX**

REFERENCE	<u>QUESTIONED COSTS</u>				<u>(NOTES)</u> <sup>3</sup>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
<u>REVENUE</u>					
Grant No. 1 (USAID/X)	\$ xxx	\$ xxx			
Grant No. 2 (USAID/Y)	xxx	xxx			
Loan No. 1 (USAID/X)	<u>xxx</u>	<u>xxx</u>			
Total Revenue	\$ xxx	\$ xxx			
	=====	=====			
<u>COSTS INCURRED</u> <sup>4</sup>					
<u>Administrative:</u>					

Supporting schedules detailing revenues, costs incurred, outstanding fund balances, and commodities and technical assistance directly procured for each individual agreement should be attached.

All questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations should be included in the report on compliance. In addition, the notes in this schedule should briefly describe the questioned costs and should be connected to the corresponding findings in the report on compliance.

Should include both costs incurred and reimbursed (liquidated) by USAID and costs incurred but pending reimbursement (liquidation) by USAID. Questioned amounts for costs pending reimbursement should be identified in the findings and notes as not reimbursed by USAID.



Grant No. 1	\$ xxx	\$ xxx	\$ xxx		Note 6
Grant No. 2	xxx	xxx		\$ xxx	Note 7
Loan No. 1	<u>xxx</u>	<u>xxx</u>			
	\$ xxx	\$ xxx			
	=====	=====			

**EXAMPLE 1 (Continued)****Illustrative Fund Accountability Statement (Continued)**

**(NAME OF RECIPIENT)**  
**FUND ACCOUNTABILITY STATEMENT**

**January 1, 19XX to December 31, 19XX**

REFERENCE	<u>QUESTIONED COSTS</u>				<u>(NOTES)</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
<u>Salaries:</u>					
Grant No. 1	\$ xxx	\$ xxx	\$ xxx		Note 8
Grant No. 2	xxx	xxx		\$ xxx	Note 9
Loan No. 1	<u>xxx</u>	<u>xxx</u>		<u>xxx</u>	Note 10
	\$ xxx	\$ xxx	\$ xxx		
<u>Transportation:</u>					
Grant No. 1	\$ xxx	\$ xxx			
Grant No. 2	<u>xxx</u>	<u>xxx</u>	\$ xxx		Note 11
	\$ xxx	\$ xxx			
<u>Equipment Supplies:</u>					
Grant No. 2	\$ xxx	\$ xxx	\$ xxx		Note 12
<u>Maintenance:</u>					
Grant No. 2	\$ xxx	\$ xxx			
<u>Other Direct:</u>					
Grant No. 1	\$ xxx	\$ xxx			
<u>Indirect:</u>					
Grant No. 1	\$ xxx	\$ xxx			
Loan No. 1	<u>xxx</u>	<u>xxx</u>			
	<u>\$ xxx</u>	<u>\$ xxx</u>			
Total Costs Incurred	\$ xxx	\$ xxx			
	=====	_____	_____	_____	
Outstanding Fund Balance <sup>5</sup>		\$ xxx	\$ xxx	\$ xxx	
		=====	_____	_____	

should reconcile with cash-on-hand and in bank accounts after considering any reconciling items. This reconciliation should be explained to the fund accountability statement.

**EXAMPLE 1 (Continued)****Illustrative Fund Accountability Statement (Continued)**

(NAME OF RECIPIENT)  
**FUND ACCOUNTABILITY STATEMENT**

**January 1, 19XX to December 31, 19XX**

REFERENCE	<u>QUESTIONED COSTS</u>				<u>(NOTES)</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
Commodities & Technical Assistance Directly Procured By <u>USAID<sup>6</sup></u>					
<u>Vehicles:</u>					
Grant No. 1	\$xxx	\$ xxx	\$ xxx		Note 13
Grant No. 2	<u>xxx</u>	<u>xxx</u>			
	\$xxx	\$ xxx			
<u>Tech Assistance:</u>					
Grant No. 1	\$xxx	\$ xxx			
Grant No. 2	<u>xxx</u>	<u>xxx</u>	\$ xxx		Note 14
	\$xxx	\$ xxx			
<u>Equipment:</u>					
Grant No. 1	\$xxx	\$ xxx	\$ xxx		Note 15
Total Commodities/ Tech Assistance Procured by USAID	\$xxx =====	\$ xxx =====	\$ xxx _____	_____	
Total Questioned Costs			\$ xxx =====	\$ xxx =====	

The cost of commodities and technical assistance directly procured by USAID that are not accounted for or not used in accordance with the terms of the agreements should be questioned.

## EXAMPLE 2

### Illustrative Cost Sharing Schedule

**(NAME OF RECIPIENT)**  
**COST SHARING SCHEDULE**  
**FROM JANUARY 1, 19XX TO DECEMBER 31, 19XX**

	<u>BUDGET</u> <sup>7</sup>	<u>ACTUAL</u>	<u>QUESTIONED</u> <u>INELIGIBLE</u> <sup>8</sup>	<u>REF.</u> <u>UNSUPPORTED</u> <sup>9</sup>	<u>(NOTES)</u>
<u>CASH</u>					
Grant No. 1	\$ xxx	\$ xxx			
Grant No. 2	xxx	xxx	\$ xxx		Note 1
<u>IN-KIND</u>					
Grant No. 1	\$ xxx	\$ xxx		\$ xxx	Note 2
Grant No. 2	xxx	xxx			
<b>TOTAL</b>	<u>\$ xxx</u> =====	<u>\$ xxx</u> =====	<u>\$ xxx</u> =====	<u>\$ xxx</u> =====	

The auditors should:

use the budgeted amounts in the agreements, if available;

use a matching percentage of cost sharing contributions by the recipient based on the U.S. dollar amount provided by USAID, if stipulated in the agreements. The auditors should compute the budgeted amounts by multiplying the matching percentage by the U.S. dollar amount provided by USAID, or;

allocate the budgeted amounts based on the most appropriate criteria available if a detailed annualized budget is not included in the agreements.

The auditors should also disclose the method used to compute the budgeted amounts.

Cost sharing contributions not provided in accordance with the terms of the agreements should be questioned as payable by the recipient. Compliance should be cross-referenced to detailed findings in the report on compliance and explained briefly in the notes to the cost sharing schedule.

Cost sharing contributions not accounted for in accordance with the terms of the agreements should be classified as unsupported. All instances of non-compliance should be cross-referenced to detailed findings in the report on compliance and briefly explained in the notes to the cost sharing schedule.

### EXAMPLE 3

#### Illustrative Schedule of Computation of Indirect Cost Rate

#### (NAME OF RECIPIENT) SCHEDULE OF COMPUTATION OF INDIRECT COST RATE

For the Year Ended December 19XX

<u>Description</u>	<u>Expenses</u>	<u>Exclusions/ Unallowable Expenses</u>	<u>Direct Cost Base</u>	<u>Indirect Cost Pool</u>
Salaries & Wages	\$ 1,000	\$ 100	\$ 800	\$ 100
Employee Benefits	100	10	80	10
Payroll Taxes	100	10	80	10
Professional Expenses	400	200	200	
Travel	50		50	
Representation	100	100		
Occupancy & Cleaning	50			50
Telephone	50			50
Office Supplies	50			50
Postage & Shipping	100		100	
Equipment Rental	200		200	
Repairs & Maintenance	150		100	50
Depreciation	50		50	
Printing & Duplicating	50			50
Resource Aids	100		100	
Insurance	100		100	
Bad Debt Expense	50	50		
Miscellaneous	50	10		40
Fund Raising	<u>200</u>	<u>200</u>	<u>200</u>	
<b>Total</b>	<u>\$ 2,950<sup>10</sup></u>	<u>\$ 680</u>	<u>\$ 2,060</u>	<u>\$ 410</u>

Indirect cost rate calculation:

$$\frac{\text{Indirect Costs}}{\text{Direct Cost Base}} = \frac{\$ 410}{\$ 2,060} = 19.9\%$$

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<sup>10</sup>Agrees to the total expenses shown in the audited general purpose financial statements.

## VII. ILLUSTRATIVE REPORTS

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The following illustrations of auditor's reports will provide useful examples of the types of reports that will satisfy the requirements of these Guidelines. For additional guidance, the auditors should refer to the applicable AICPA Statements on Auditing Standards.

### EXAMPLE 1

#### Auditor's Report on the Fund Accountability Statement<sup>11/</sup>

##### A. Example of a report with an unqualified opinion

###### Independent Auditor's Report

Board of Directors  
Name of Recipient Organization  
Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* for the year ended June 30, 19XX. The fund accountability statement is the responsibility of *(name of recipient)*'s management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit of the fund accountability statement in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by USAID for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note X.

This report is intended for the information of *(name of recipient)* and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

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For guidance on these reports, refer to AICPA SAS No. 58, "Reports on Audited Financial Statements," SAS No. 62, "Special Reports," and 79 Amendment to Statement on Auditing Standards No. 58. The auditors should express an adverse or disclaimer of opinion when matters or scope restrictions are to such an extent that, in the auditor's judgment, they would preclude the expression of a qualified opinion.

Firm's Signature

Date

## B. Example of a report with a qualified opinion

### Independent Auditor's Report

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* for the year ended June 30, 19XX. The fund accountability statement is the responsibility of *(name of foreign recipient)*'s management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit of the fund accountability statement in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.<sup>12/</sup>

The results of our tests disclosed the following material questioned costs as detailed in the fund accountability statement: (1) \$\_\_\_\_\_ in costs that are explicitly questioned because they are not program related, unreasonable, or prohibited by the terms of the agreements; and (2) \$\_\_\_\_\_ in costs that are not supported with adequate documentation or did not have required prior approvals or authorizations.<sup>13/</sup>

In our opinion, except for the effects of the questioned costs discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, program

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The lack of a satisfactory continuing education program and/or external quality control review program should be disclosed in the scope section of the report. In such case, the second paragraph and additional explanatory paragraphs would read as follows:

Except as discussed in the following paragraph(s), we conducted our audit of the fund accountability statement in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States...." (continue with the standard language for this paragraph).

\_\_\_\_\_ do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.6 of *U.S. Government Auditing Standards*. However, our current program provides for at least *(number)* hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement."

\_\_\_\_\_ did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.33 of *U.S. Government Auditing Standards*, since no such program is offered by professional organizations in *(name of country)*. We believe that the effect of the departure from *U.S. Government Auditing Standards* is not material because we participate in the *(name of U.S. affiliate)* worldwide internal quality control review program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices."

This paragraph is illustrative only and can be modified or excluded based on the type of findings contained in the report.



revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by USAID for the year then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note X.

This report is intended for the information of (*name of recipient*) and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Firm's Signature

Date

## EXAMPLE 2

### Auditor's Report on the Internal Control Structure

#### A. Example of report with no reportable conditions noted

##### Independent Auditor's Report on Internal Controls

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX. We also reviewed the separate cost sharing schedule to determine whether contributions were provided and accounted for in accordance with the terms of the agreements.

We conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.<sup>14/</sup>

The management of *(name of recipient)* is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note X to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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The lack of a satisfactory continuing education program and/or external quality control review program should be disclosed in the paragraph as follows:

Except for not having a fully satisfactory continuing education program and/or not conducting an external quality control review by an unaffiliated organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States...." (continue with the standard language for this paragraph).

In planning and performing our audit of the fund accountability statement of *(name of recipient)* for the year ended June 30, 19XX, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement and the cost sharing schedule may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of *(name of recipient)* in a separate letter dated August 15, 19XX.<sup>15/</sup>

This report is intended for the information of *(name of recipient)* and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Firm's Signature

Date

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Exclude this paragraph if there are no nonreportable conditions.

## **B. Example of report with reportable conditions noted**

### Independent Auditor's Report on Internal Controls

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX. We also reviewed the separate cost sharing schedule to determine whether contributions were provided and accounted for in accordance with the terms of the agreements.

We conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

The management of *(name of recipient)* is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note X to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement of *(name of recipient)* for the year ended June 30, 19XX, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment,

could adversely affect the recipient's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement and cost sharing schedule.

(Include paragraphs summarizing the reportable conditions, with references to the attached findings, which should fully describe the conditions noted.)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement and the cost sharing schedule may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.<sup>16/</sup>

We also noted other matters involving the internal control structure and its operation that we have reported to the management of (*name of recipient*) in a separate letter dated August 15, 19XX.<sup>17/</sup>

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If conditions believed to be material weaknesses are disclosed, the report should describe the weaknesses that have come to the auditor's attention. The last sentence of this paragraph should be modified as follows:

However, we noted the following matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the fund accountability statement of (*name of recipient*) for the year ended June 30, 19XX.

(The description of the material weaknesses that have come to the auditor's attention would follow and should be cross-referenced to the attached findings.)

Exclude this paragraph if there are no nonreportable conditions.

This report is intended for the information of (*name of recipient*) and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Firm's Signature

Date

### EXAMPLE 3

#### Auditor's Report on Compliance

##### A. Example of report with no material noncompliance

###### Independent Auditor's Report on Compliance

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX. We also reviewed the separate cost sharing schedule to determine whether they were provided and accounted for in accordance with the terms of the agreements.

We conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.<sup>18/</sup>

Compliance with agreement terms and laws and regulations applicable to *(name of recipient)* is the responsibility of *(name of recipient)*'s management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of *(name of recipient)*'s compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of *(name of recipient)*'s compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost sharing contributions.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *U.S. Government Auditing Standards*.<sup>19/</sup>

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The lack of a satisfactory continuing education program and/or external quality control review program should be disclosed in the subsequent paragraph as follows:

Except for not having a fully satisfactory continuing education program and/or not conducting an external quality control review by an unaffiliated organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States...." (continue with the standard language of this paragraph).

See *U.S. Government Auditing Standards*, Chapter 5, paragraphs 5.18 - 5.19 for reporting criteria.

We noted certain immaterial instances of noncompliance that we have reported to the management of *(name of recipient)* in a separate letter dated August 15, 19XX.<sup>20/</sup>

This report is intended for the information of *(name of recipient)* and the U.S. Agency for International Development (USAID). However, upon release USAID, this report is a matter of public record and its distribution is not limited.

Firm's Signature

Date

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Exclude this paragraph if there are no immaterial instances of noncompliance.



## B. Example of report with material noncompliance

### Independent Auditor's Report on Compliance

Board of Directors

Name of Recipient Organization

Complete Mailing Address

We have audited the fund accountability statement of *(name of recipient)* as of and for the year ended June 30, 19XX and have issued our report thereon dated August 15, 19XX. We also reviewed the separate cost sharing schedule to determine whether they were provided and accounted for in accordance with the terms of the agreements.

We conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to *(name of recipient)* is the responsibility of *(name of recipient)*'s management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of *(name of recipient)*'s compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of *(name of recipient)*'s compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost sharing contributions.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement and the cost sharing schedule. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which are shown as questioned costs in *(name of recipient)*'s 19XX fund accountability statement and cost sharing schedule.

(Include paragraphs summarizing the material instances of noncompliance, with references to the attached findings, which should fully describe the material instances of noncompliance.)<sup>21/</sup>

We considered these material instances of noncompliance in forming our opinion on whether *(name of*

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*U.S. Government Auditing Standards* state that audit findings have been regarded as containing the elements of condition, criteria, cause, and effect. It is recognized that the auditors may not be able to fully develop all of these points. The auditors should attempt to identify these points to provide sufficient information to permit timely and proper corrective action. These findings may also serve as a basis for conducting additional audits.

*recipient*)'s 19XX fund accountability statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note X to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated (*date of report*).

We noted certain immaterial instances of noncompliance that we have reported to the management of (*name of recipient*) in a separate letter dated August 15, 19XX.<sup>22/</sup>

This report is intended for the information of (*name of recipient*) and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Firm's Signature

Date

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Exclude this paragraph if there are no immaterial instances of noncompliance.

#### **EXAMPLE 4**

##### **Report on Schedule of Computation of Indirect Cost Rate<sup>23</sup>/**

Board of Directors

Name of Recipient Organization

Complete Mailing Address

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of computation of indirect cost rate contained on page (x) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Firm's Signature

Date

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See SAS No. 29 (AU551) for reporting guidance.

## EXAMPLE 5

### Unqualified opinion on the general purpose financial statements of the recipient organization as a whole.

#### Independent Auditor's Report<sup>24/</sup>

Board of Directors  
Name of Recipient Organization  
Complete Mailing Address

We have audited the accompanying balance sheet of *(name of recipient)* as of June 30, 19XX, and the related statements of revenue and expenditures, and changes in fund balances for the year then ended. These financial statements are the responsibility of *(name of recipient)* management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with (insert source of auditing standards). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *(name of recipient)* at June 30, 19XX, and the results of its operation and its fund balances for the year then ended in conformity with generally accepted accounting principles.

Firm's Signature

Date

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For guidance on basic financial statement reports requiring other than an unqualified opinion, refer to SAS No. 58, "Reports on Audited Financial Statements" and SAS No. 79, Amendment to SAS No. 58.

auditors should express a qualified, adverse, or disclaimer of opinion when a lack of sufficient, competent evidential matter or restrictions on the scope of the auditor's examination have led him or her to conclude that an unqualified opinion cannot be expressed.

## EXAMPLE 6

### Auditor's Report on the Cost Sharing Schedule

#### A. Example of report with no reportable conditions noted

##### Independent Auditor's Review Report on the Cost Sharing Schedule

Board of Directors  
Name of Recipient Organization  
Complete Mailing Address

We have reviewed the accompanying cost sharing schedule of *(name of recipient)* for the period *(date of beginning of current audit period)* to *(date of end of current audit period)*. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA).<sup>25</sup> The purpose of our review was to determine if cost sharing contributions were provided and accounted for in accordance with the terms of the agreements. We also considered the internal controls related to the provision of and accounting for cost sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is the expressing of an opinion on the cost sharing schedule. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that *(name of recipient)* has not provided and accounted for cost sharing contributions in accordance with the terms of the agreements.

This report is intended for the information of *(name of recipient)* and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Firm's Signature

Date

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For reporting guidance, see AICPA Statements of Standards for Attestation Engagements, Attestation Standard (AT) 100.56.

## EXAMPLE 6

### Auditor's Report on the Cost Sharing Schedule

#### B. Example of report with reportable conditions noted

#### Independent Auditor's Review Report on the Cost Sharing Schedule

Board of Directors  
Name of Recipient Organization  
Complete Mailing Address

We have reviewed the accompanying schedule of counterpart contributions of *(name of recipient)* for the period *(date of beginning of current audit period)* to *(date of end of current audit period)*. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA).<sup>26/</sup> The purpose of our review was to determine if cost sharing contributions were provided and accounted for in accordance with the terms of the agreements. We also considered the internal controls related to the provision of and accounting for cost sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is the expressing of an opinion on the cost sharing schedule. Accordingly, we do not express such an opinion.

The results of our review disclosed the following material questioned costs as detailed in the cost sharing schedule: (1) \$\_\_\_\_\_ in questioned costs which were not provided in accordance with the terms of the agreements, and (2) \$\_\_\_\_\_ in unsupported costs which were not accounted for in accordance with the terms of the agreements.<sup>27/</sup>

(Include paragraphs summarizing the internal control and compliance findings related to the cost sharing schedule with references to the findings in the reports on internal control and compliance, as applicable, as well as the notes to the cost sharing schedule.)

Based on our review, except as noted above, nothing came to our attention that caused us to believe that *(name of recipient)* has not provided and accounted for cost sharing contributions in accordance with the terms of the agreements.

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For reporting guidance, see AICPA Statements of Standards for Attestation Engagements, Attestation Standard (AT) 100.56.

This paragraph is illustrative only and can be modified or excluded based on the type of findings contained in the report.

This report is intended for the information of *(name of recipient)* and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Firm's Signature

Date

**VIII. USAID INSPECTOR GENERAL ADDRESSES AND PHONE NUMBERS**

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**AGENCY FOR INTERNATIONAL DEVELOPMENT  
INSPECTOR GENERAL ADDRESSES AND PHONE NUMBERS**

<b><u>U.S. MAIL</u></b>	<b>HOURS FROM U.S. DAYLIGHT SAVINGS/ STANDARD TIME</b>	<b><u>EXPRESS MAIL</u></b>
USAID/RIG/CAIRO Unit 64902 APO, AE 09839-4902 TEL: (202) 357-3909	6/7	USAID/RIG/A/Cairo 106 Kasr El Aini Street FAX: (202) 355-4318
USAID/RIG/DAKAR Department of State Washington, DC 20521-2130 TEL: (221) 23-1885 or (221) 23-2848	4/5	USAID/RIG/A/Dakar Residence Cheikh Abdou Lahad Mbacke First Floor 2, Abdoulaye Fadiga Dakar, Senegal FAX: (221) 23-6155
USAID-RIG-Manila FPO AP 96515 TEL: 632-522-4411, Ext. 4545 :	12/12	USAID-RIG-Manila 17th Floor Ramon Magsaysay Center Bldg. 17th Floor 1680 Roxas Boulevard Malate, Manila Philippines 10004 FAX: 632-521-4811 or 521-5241
USAID/RIG/SAN SALVADOR Unit 3110 APO, AA 34023-3110 TEL: (503) 228-5457	2/1	USAID/RIG/San Salvador Edificio USAID Blvd. y Urb Santa Elena Antiguo Cuscatlan, Depto. La Libertad, El Salvador FAX: (503) 228-5459
USAID/RIG/BUDAPEST American Embassy Budapest Washington, DC 20521-5270 TEL: (36) 1-352-8551/8553	5/6	USAID/RIG/Budapest Fifth Floor Nyar Utca 32 1071 Budapest, Hungary FAX: 36-1-352-8539
USAID/RIG/PRETORIA Department of State Washington, DC 20521-9300	7/8	USAID/RIG/Pretoria Sancardia Bldg, 4th Floor 524 Church Street



<b><u>U.S. MAIL</u></b>	<b>HOURS FROM U.S. DAYLIGHT SAVINGS/ STANDARD TIME</b>	<b><u>EXPRESS MAIL</u></b>
TEL: (27) 12-323-8869, Ext. 203 FAX: (27) 12-324-5064		Arcadia, Pretoria 0007 South Africa
Office of Inspector General Director, IG/A/FA 1300 Pennsylvania Avenue, NW (14th Street Entrance) Rm. 8.09-069M Washington, DC 20523-8100 TEL: 202-712-5948 FAX: 202-216-3598		

## **IX. OUTLINE OF AN ILLUSTRATIVE STATEMENT OF WORK FOR RECIPIENT CONTRACTED AUDITS**

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### **I. BACKGROUND**

This section should contain a brief description of the USAID program objectives, implementing agencies and their role in the USAID programs, amount, type and purpose of USAID and other program contributions, duration of the program and other significant requirements.

### **II. TITLE**

This section should contain the title and number of the USAID programs.

### **III. OBJECTIVES**

This section should state that this is a financial audit of the USAID-funded programs and the period covered. It should also contain the requirements from Part III of these Guidelines. The objectives concerning the audit of the indirect cost rate and the general purpose financial statements of the recipient organization as a whole should only be included if applicable.

### **IV. AUDIT SCOPE**

This section should include the requirements of Part IV of these Guidelines. The scope requirements concerning the audit of the indirect cost rate and the general purpose financial statements of the recipient organization as a whole should only be included if applicable. In addition, the cognizant USAID Mission may expand the scope of the audit to include additional requirements to address special Mission concerns.

### **V. REPORTS**

This section should include the requirements of Part V of these Guidelines. The reporting requirements concerning the audit of the indirect cost rate and the general purpose financial statements of the recipient organization as a whole should only be included if applicable.

### **VI. INSPECTION AND ACCEPTANCE OF AUDIT WORK AND REPORTS**

This section will discuss the roles of the cognizant USAID Mission, the recipient, and the USAID RIG in the inspection and acceptance of the audit work and reports.

VII. RELATIONSHIPS AND RESPONSIBILITIES

This section should establish the relationships and responsibilities between the independent auditor, the recipient, the cognizant USAID Mission, and the USAID RIG.

VIII. TERMS OF PERFORMANCE

This section should require timely completion of the audit report after the end of the fiscal year. (The recipient is required to submit the audit report to USAID within 30 days after completion of the audit, but the audit shall be completed and the report submitted to USAID not later than 9 months after the close of the recipient's fiscal year.) This section should also describe how payments to the independent auditor are to be made.

## **X. MODEL AUDIT AGREEMENT WITH SUPREME AUDIT INSTITUTIONS**

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The Agency for International Development (USAID) and the *(title of the host country's Supreme Audit Institution -- hereinafter referred to as the SAI)* agree that the SAI will perform or contract for audits of USAID funding agreements with the Government of *(name of country)*.

The audits shall be performed in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients," issued by the USAID Inspector General, as required by the Standard Audit Provisions contained in the respective agreements between USAID and the Government of *(name of country)*.

USAID and the SAI agree that the SAI will perform audits in accordance with *U.S. Government Auditing Standards* or such standards as the principals may agree upon.

USAID and the SAI may agree that the SAI can contract an independent public accounting firm to perform audits of governmental organizations. These contracted audits shall be performed in accordance with *U.S. Government Auditing Standards* and be supervised by the SAI. USAID will finance these audit contracts. The audit firms and contracts shall be approved by USAID before the contract is entered into.

USAID and the SAI may agree that the SAI can contract an independent public accounting firm or qualified individual to supervise the audits to be performed by the SAI or its contractor. USAID will finance these contracts. The contractor and contracts shall be approved by USAID before the contract is entered into.

USAID and the SAI shall jointly prepare an annual schedule of audits to be performed or contracted by the SAI. The schedule of audits will contain the following information:

- names of the governmental institutions to be audited;
- identifying numbers of USAID agreements to be covered by the audits;
- fiscal year to be covered by the audits;
- name of the auditors (SAI or public accounting firm); and
- name of the entity in charge of supervising the audits (SAI, public accounting firm, or individual contractor).

Standard statements of work provided by the USAID RIG as examples to be used in performing audits of governmental organizations are attached, and are an integral part of this agreement. The statements of work cover audit requirements for revenue producing governmental organizations and non-revenue

producing governmental organizations. USAID shall approve all statements of work before audit work begins. USAID may expand the scope of work to allow the review of specific areas that may be of particular interest to USAID for ensuring proper accountability over resources provided to the recipient, and may meet with the SAI or its contractor at the beginning of the audit to explain any financial or compliance areas of concern contained in the statement of work that USAID wants to emphasize.

The scope of audit of both revenue producing and non-revenue producing governmental agencies shall require a report on the fund accountability statement for the USAID-funded programs, a report on internal controls related to the USAID-funded programs, and a report on compliance with agreement terms and applicable laws and regulations related to the USAID-funded programs. In addition, the scope of audit for revenue producing governmental agencies shall require an audit of the financial statements of the recipient organization as a whole.

The USAID RIG will provide technical advice and perform quality control reviews (QCRs) of the workpapers of a sample of audit reports. The USAID RIG will notify the auditee of the results of the QCRs. If the USAID RIG does not accept an audit report because of deficiencies in the work of the SAI or its contractor, the auditors will perform any additional audit work requested by the USAID RIG at no additional cost to USAID.

The SAI or its contractor shall properly maintain audit working papers for a period of three years from the completion of the audit. During this three-year period, the SAI or its contractor shall immediately provide the working papers when requested by USAID or the USAID RIG.

Signed \_\_\_\_\_  
USAID Mission or Representative

Date \_\_\_\_\_

Signed \_\_\_\_\_  
Supreme Audit Institution

Date \_\_\_\_\_

Signed \_\_\_\_\_  
USAID RIG

Date \_\_\_\_\_